

CITY OF AKUTAN, ALASKA

Basic Financial Statements, Supplementary
Information, and Single Audit Reports

Year Ended June 30, 2011

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CITY OF AKUTAN, ALASKA

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Independent Auditor's Report

Honorable Mayor and City Council
City of Akutan, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, as of and for the year ended June 30, 2011, which collectively comprise the City of Akutan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Akutan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Fuel/Gas, Permanent and Geothermal Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of City of Akutan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Council
City of Akutan, Alaska

City of Akutan has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Akutan's basic financial statements. The accompanying Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mikunda, Cottrell & Co.

Anchorage, Alaska
December 6, 2011

BASIC FINANCIAL STATEMENTS

CITY OF AKUTAN, ALASKA

Statement of Net Assets

June 30, 2011

<u>Assets</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cash and investments	\$ 7,855,048	-	7,855,048
Receivables, net of allowance for doubtful accounts:			
Akutan Traditional Council	82,564	-	82,564
Fish taxes	285,300	-	285,300
Accounts (net of allowance for doubtful accounts)	26,616	10,617	37,233
Grants	149,073	-	149,073
Other	4,050	-	4,050
Prepaid items	2,384	-	2,384
Fuel inventory	66,237	14,364	80,601
Investment in Southwest Governments, LLC	603,715	-	603,715
Internal balances	464,585	(464,585)	-
Capital assets not being depreciated - land and construction in progress	793,886	-	793,886
Other capital assets, net of accumulated depreciation	<u>7,913,442</u>	<u>1,904,297</u>	<u>9,817,739</u>
 Total assets	 \$ <u>18,246,900</u>	 <u>1,464,693</u>	 <u>19,711,593</u>
 <u>Liabilities and Net Assets</u>			
Liabilities:			
Accounts payable	326,267	4,697	330,964
Prepaid rent	5,500	-	5,500
Accrued interest payable	3,877	-	3,877
Noncurrent liabilities:			
Due within one year:			
Accrued leave	47,322	8,863	56,185
Note payable	255,391	-	255,391
Due in more than one year - notes payable	<u>507,520</u>	<u>-</u>	<u>507,520</u>
Total liabilities	<u>1,145,877</u>	<u>13,560</u>	<u>1,159,437</u>
Net assets:			
Invested in capital assets, net of related debt	7,944,417	1,904,297	9,848,714
Unrestricted (deficit)	<u>9,156,606</u>	<u>(453,164)</u>	<u>8,703,442</u>
Total net assets	<u>17,101,023</u>	<u>1,451,133</u>	<u>18,552,156</u>
 Total liabilities and net assets	 \$ <u>18,246,900</u>	 <u>1,464,693</u>	 <u>19,711,593</u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
Statement of Activities
Year Ended June 30, 2011

Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		Total
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	
Governmental:							
General government	\$ 1,489,225	17,451	-	-	(1,471,774)	-	(1,471,774)
Public safety	80,684	-	-	-	(80,684)	-	(80,684)
Community services	534,029	311,084	227,888	-	4,943	-	4,943
Public works	3,272,648	-	1,816,404	-	(1,456,244)	-	(1,456,244)
Garbage and recycling	29,714	-	-	-	(29,714)	-	(29,714)
Apartment building	45,903	21,290	-	-	(24,613)	-	(24,613)
Airport	71,781	-	-	-	(71,781)	-	(71,781)
Warehouse	2,064	6,795	-	-	4,731	-	4,731
Dock and skiff moorage	100,360	9,012	-	-	(91,348)	-	(91,348)
Water and sewer	141,135	1,241	107,226	-	(32,668)	-	(32,668)
Cable	14,777	15,748	-	-	971	-	971
Total governmental	5,782,320	382,621	2,151,518	-	(3,248,181)	-	(3,248,181)
Business-type - electric	361,603	158,148	-	515,175	-	311,720	311,720
Total	\$ 6,143,923	540,769	2,151,518	515,175	(3,248,181)	311,720	(2,936,461)
General revenues:							
Fish taxes				\$	1,222,653	-	1,222,653
Grants and entitlements not restricted to a specific purpose					1,276,129	-	1,276,129
Investment income					656,329	-	656,329
Other					49,856	-	49,856
Transfers					(275,610)	275,610	-
Total general revenues and transfers					2,929,357	275,610	3,204,967
Change in net assets					(318,824)	587,330	268,506
Net assets at beginning of year					17,419,847	863,803	18,283,650
Net assets at end of year				\$	17,101,023	1,451,133	18,552,156

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
 Governmental Funds
 Balance Sheet
 June 30, 2011

Major Funds							
		Special Revenue			Capital Project		Total
Assets	General	Fuel / Gas	Permanent	Geothermal	Other Capital Projects	Nonmajor Funds	Govern- mental Funds
Cash and investments	\$ 560,007	88,368	5,844,167	-	806,651	555,855	7,855,048
Receivables:							
Akutan Traditional Council	82,564	-	-	-	-	-	82,564
Fish taxes	285,300	-	-	-	-	-	285,300
Accounts	-	25,053	-	-	-	8,063	33,116
Grants	-	-	-	134,982	-	14,091	149,073
Other	4,050	-	-	-	-	-	4,050
Allowance for doubtful accounts	-	(6,500)	-	-	-	-	(6,500)
Prepaid items	-	2,384	-	-	-	-	2,384
Fuel inventory	-	66,237	-	-	-	-	66,237
Investment in Southwest Governments, LLC	603,715	-	-	-	-	-	603,715
Due from other funds	977,547	-	-	-	-	-	977,547
 Total assets	 \$ 2,513,183	 175,542	 5,844,167	 134,982	 806,651	 578,009	 10,052,534
 <u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	176,631	7,283	-	134,982	-	7,371	326,267
Deferred revenue:							
Southwest Governments, LLC	131,172	-	-	-	-	-	131,172
Prepaid rent	5,500	-	-	-	-	-	5,500
Due to other funds	-	-	-	509,563	-	3,399	512,962
Total liabilities	313,303	7,283	-	644,545	-	10,770	975,901
 Fund balances:							
Nonspendable	555,107	68,621	-	-	-	-	623,728
Assigned	-	99,638	5,844,167	-	806,651	567,239	7,317,695
Unassigned (deficit)	1,644,773	-	-	(509,563)	-	-	1,135,210
Total fund balances (deficit)	2,199,880	168,259	5,844,167	(509,563)	806,651	567,239	9,076,633
 Total liabilities and fund balances	 \$ 2,513,183	 175,542	 5,844,167	 134,982	 806,651	 578,009	 10,052,534

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Assets
 June 30, 2011

Total fund balances for governmental funds	\$	9,076,633
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Total net assets reported for governmental activities in the
 Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. These
 assets, net of accumulated depreciation consist of:

Land and land improvements	\$	793,886	
Buildings and improvements		3,724,316	
Equipment		479,741	
Service lines		625,000	
Infrastructure		6,471,378	
Accumulated depreciation		<u>(3,386,993)</u>	
Total capital assets			8,707,328

The City has an investment in Southwest Governments, LLC.

This is a long-term asset which is deferred in the funds.		131,172
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Long-term liabilities, including note payable, accrued leave,
 and accrued interest are not due and payable in the
 current period and therefore are not reported as fund liabilities.

Notes payable	(762,911)		
Accrued interest payable		(3,877)	
Accrued leave		<u>(47,322)</u>	
Total long-term liabilities			<u>(814,110)</u>

Total net assets of governmental activities	\$	<u><u>17,101,023</u></u>
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CITY OF AKUTAN, ALASKA

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Year Ended June 30, 2011

	Major Funds					Capital Project	Total
		Special Revenue			Other Capital Projects	Nonmajor Funds	Govern-mental Funds
	General	Fuel / Gas	Permanent	Geothermal			
Revenues:							
Intergovernmental:							
State of Alaska	\$ 1,155,876	-	-	1,778,104	-	107,226	3,041,206
Federal	266,163	-	-	-	-	-	266,163
Local fish taxes	1,222,653	-	-	-	-	-	1,222,653
Charges for services	-	290,517	-	-	-	24,760	315,277
Investment income	44,492	-	627,770	-	107	-	672,369
Other revenues	237,453	-	-	-	-	25	237,478
Total revenues	<u>2,926,637</u>	<u>290,517</u>	<u>627,770</u>	<u>1,778,104</u>	<u>107</u>	<u>132,011</u>	<u>5,755,146</u>
Expenditures:							
Current:							
General government	1,471,245	-	-	-	-	-	1,471,245
Public safety	70,561	-	-	-	-	-	70,561
Community services	115,071	337,206	-	-	-	-	452,277
Public works	433,342	-	-	2,757,690	-	107,226	3,298,258
Water and sewer	115,617	-	-	-	-	547	116,164
Garbage and recycling	29,714	-	-	-	-	-	29,714
Apartment building	36,385	-	-	-	-	-	36,385
Airport	71,781	-	-	-	-	-	71,781
Permanent	-	-	18,565	-	-	-	18,565
Dock and skiff moorage	-	-	-	-	-	21,024	21,024
Cable	-	-	-	-	-	12,166	12,166
Debt service	281,218	-	-	-	-	-	281,218
Total expenditures	<u>2,624,934</u>	<u>337,206</u>	<u>18,565</u>	<u>2,757,690</u>	<u>-</u>	<u>140,963</u>	<u>5,879,358</u>
Excess of revenues over (under) expenditures	301,703	(46,689)	609,205	(979,586)	107	(8,952)	(124,212)
Other financing sources (uses):							
Transfers in	-	27,885	-	250,000	-	184,740	462,625
Transfers out	(738,235)	-	-	-	-	-	(738,235)
Proceeds from loan	-	-	-	245,925	-	-	245,925
Net other financing sources (uses)	<u>(738,235)</u>	<u>27,885</u>	<u>-</u>	<u>495,925</u>	<u>-</u>	<u>184,740</u>	<u>(29,685)</u>
Net change in fund balances	(436,532)	(18,804)	609,205	(483,661)	107	175,788	(153,897)
Beginning fund balances (deficit)	<u>2,636,412</u>	<u>187,063</u>	<u>5,234,962</u>	<u>(25,902)</u>	<u>806,544</u>	<u>391,451</u>	<u>9,230,530</u>
Ending fund balances (deficit)	\$ 2,199,880	168,259	5,844,167	(509,563)	806,651	567,239	9,076,633

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA

Reconciliation of the Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ (153,897)

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However
on the Statement of Activities, depreciation expense is recognized
to allocate the cost of these items over the estimated useful lives.
This is the amount by which depreciation (\$300,241) exceeded
capital outlays (\$125,571). (174,670)

The issuance of long-term debt provides current financial resources
to governmental funds while the repayment of principal of long-term debt
(e.g. note payable) uses current financial resources in governmental
funds. However, neither transaction has an effect on net assets. 3,674

Some revenues may not be collected for several months after the
City's year-end. This is the decrease in deferred revenue
related to the City's investment in Southwest Governments, LLC. (16,040)

Some expenses reported in the Statement of Activities do not require
the use of current financial resources and, therefore, are not reported
as expenditures in governmental funds. This is the amount of
decrease in:

Accrued leave	\$	16,009	
Accrued interest payable		6,100	
			22,109

Change in net assets of governmental activities \$ (318,824)

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
General Fund
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	(Restated) <u>Actual</u>
Revenues:				
Intergovernmental:				
State of Alaska	\$ 1,260,384	1,155,876	(104,508)	1,576,591
Federal	300,300	266,163	(34,137)	-
Aleutians East Borough	-	-	-	40,000
Local fish taxes	1,000,000	1,222,653	222,653	753,127
Investment income	45,000	44,492	(508)	4,613
Other revenues	<u>206,097</u>	<u>237,453</u>	<u>31,356</u>	<u>214,899</u>
Total revenues	<u>2,811,781</u>	<u>2,926,637</u>	<u>114,856</u>	<u>2,589,230</u>
Expenditures:				
General government	1,070,318	1,471,245	(400,927)	1,182,005
Public safety	63,626	70,561	(6,935)	67,309
Community services	72,460	115,071	(42,611)	54,509
Public works	320,280	433,342	(113,062)	104,324
Water and sewer	96,290	115,617	(19,327)	94,253
Garbage and recycling	23,038	29,714	(6,676)	16,054
Apartment building	35,165	36,385	(1,220)	29,742
Airport	65,000	71,781	(6,781)	67,512
Debt service	<u>306,250</u>	<u>281,218</u>	<u>25,032</u>	<u>286,862</u>
Total expenditures	<u>2,052,427</u>	<u>2,624,934</u>	<u>(572,507)</u>	<u>1,902,570</u>
Excess of revenues over expenditures	759,354	301,703	(457,651)	686,660
Other financing uses - transfers out	<u>(738,235)</u>	<u>(738,235)</u>	<u>-</u>	<u>(683,235)</u>
Net change in fund balance	\$ <u>21,119</u>	(436,532)	<u>(457,651)</u>	3,425
Beginning fund balance		2,636,412		2,489,750
Prior period adjustment		<u>-</u>		<u>143,237</u>
Ending fund balance	\$	<u>2,199,880</u>		<u>2,636,412</u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
Fuel/Gas Special Revenue Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues:				
Fuel sales	\$ 135,700	96,466	(39,234)	66,482
City fuel use	209,000	194,051	(14,949)	198,773
State of Alaska	<u>110,000</u>	<u>-</u>	<u>(110,000)</u>	<u>-</u>
Total revenues	<u>454,700</u>	<u>290,517</u>	<u>(164,183)</u>	<u>265,255</u>
Expenditures:				
Salaries and benefits	74,615	77,594	(2,979)	72,922
Travel and per diem	-	3,475	(3,475)	-
Parts and supplies	1,000	2,735	(1,735)	595
Insurance	4,400	3,776	624	4,388
Utilities	400	1,598	(1,198)	521
Fuel	415,725	246,044	169,681	313,495
Repair and maintenance	<u>-</u>	<u>1,984</u>	<u>(1,984)</u>	<u>-</u>
Total expenditures	<u>496,140</u>	<u>337,206</u>	<u>158,934</u>	<u>391,921</u>
Excess of revenues over (under) expenditures	(41,440)	(46,689)	(5,249)	(126,666)
Other financing sources - transfers in	<u>27,885</u>	<u>27,885</u>	<u>-</u>	<u>27,885</u>
Net change in fund balance	\$ <u>(13,555)</u>	(18,804)	<u>(5,249)</u>	(98,781)
Beginning fund balance		<u>187,063</u>		<u>285,844</u>
Ending fund balance	\$	<u><u>168,259</u></u>		<u><u>187,063</u></u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
 Permanent Special Revenue Fund
 Statement of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

		<u>2011</u>		<u>2010</u>
		Original and Final <u>Budget</u>	Variance Positive (Negative) <u>Actual</u>	<u>Actual</u>
Revenues - investment income	\$	-	627,770	543,299
Expenditures - investment fees		-	18,565	17,266
Excess of revenues over expenditures		-	609,205	526,033
Other financing sources - transfers in		-	-	250,000
Net change in fund balance	\$	-	609,205	776,033
Beginning fund balance			5,234,962	4,458,929
Ending fund balance	\$		5,844,167	5,234,962

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
 Geothermal Special Revenue Fund
 Statement of Revenues, Expenditures and
 Changes in Deficit - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	2011			2010
	Original and Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues - Alaska Energy Authority grants	\$ 4,265,000	1,778,104	(2,486,896)	990,688
Expenditures:				
Contractual services	5,015,000	2,675,235	2,339,765	965,379
Travel and per diem	-	36,181	(36,181)	25,210
Parts and supplies	-	46,274	(46,274)	71,001
Total expenditures	<u>5,015,000</u>	<u>2,757,690</u>	<u>2,257,310</u>	<u>1,061,590</u>
Excess of revenues over (under) expenditures	(750,000)	(979,586)	(229,586)	(70,902)
Other financing sources:				
Transfers in	250,000	250,000	-	45,000
Proceeds from Alaska Energy Authority loan	<u>500,000</u>	<u>245,925</u>	<u>(254,075)</u>	<u>-</u>
Net other financing sources	<u>750,000</u>	<u>495,925</u>	<u>(254,075)</u>	<u>45,000</u>
Net change in fund balance	\$ <u>-</u>	(483,661)	<u>(483,661)</u>	(25,902)
Beginning deficit		<u>(25,902)</u>		<u>-</u>
Ending deficit	\$	<u>(509,563)</u>		<u>(25,902)</u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
Electric Enterprise Fund
Statement of Net Assets
June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets:		
Accounts receivable	\$ 10,617	13,752
Fuel inventory	<u>14,364</u>	<u>-</u>
Total current assets	<u>24,981</u>	<u>13,752</u>
Property, plant and equipment:		
Buildings and improvements	249,868	249,868
Distribution system	1,358,732	558,732
Hydro plant	739,683	739,683
Generators and other equipment	417,222	417,222
Construction in progress	<u>-</u>	<u>284,825</u>
Total property, plant and equipment	2,765,505	2,250,330
Less accumulated depreciation	<u>(861,208)</u>	<u>(792,197)</u>
Net property, plant and equipment	<u>1,904,297</u>	<u>1,458,133</u>
Total assets	\$ <u>1,929,278</u>	<u>1,471,885</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	4,697	1,225
Accrued leave	8,863	15,225
Accrued payroll and benefits	-	486
Due to other funds	<u>464,585</u>	<u>591,146</u>
Total current liabilities	<u>478,145</u>	<u>608,082</u>
Net assets:		
Invested in capital assets	1,904,297	1,458,133
Deficit	<u>(453,164)</u>	<u>(594,330)</u>
Total net assets	<u>1,451,133</u>	<u>863,803</u>
Total liabilities and net assets	\$ <u>1,929,278</u>	<u>1,471,885</u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
Electric Enterprise Fund
Statement of Revenues, Expenses and
Changes in Net Assets - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Operating revenues:				
Charges for services	\$ 157,000	140,915	(16,085)	121,526
City electric usage	<u>18,000</u>	<u>17,233</u>	<u>(767)</u>	<u>9,455</u>
Total operating revenues	<u>175,000</u>	<u>158,148</u>	<u>(16,852)</u>	<u>130,981</u>
Operating expenses:				
Salaries and benefits	99,290	89,948	9,342	110,700
Outside services	12,000	11,770	230	31,103
Parts and supplies	20,000	1,715	18,285	26,617
Filters	1,200	2,033	(833)	-
Insurance	10,000	8,582	1,418	9,309
Telephone	610	256	354	475
Fuel	150,000	178,288	(28,288)	184,153
Repair and maintenance	5,000	-	5,000	19,663
Dues and fees	1,500	-	1,500	1,483
Elder exemption	9,600	-	9,600	-
Depreciation	<u>57,000</u>	<u>69,011</u>	<u>(12,011)</u>	<u>60,120</u>
Total operating expenses	<u>366,200</u>	<u>361,603</u>	<u>4,597</u>	<u>443,623</u>
Loss from operations	(191,200)	(203,455)	(12,255)	(312,642)
Other expense - loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,248)</u>
Loss before contributions and transfers	(191,200)	(203,455)	(12,255)	(392,890)
Capital contributions	-	515,175	515,175	284,825
Transfers in	<u>275,610</u>	<u>275,610</u>	<u>-</u>	<u>275,610</u>
Change in net assets	\$ <u><u>84,410</u></u>	587,330	<u><u>502,920</u></u>	167,545
Beginning net assets		863,803		648,960
Prior period adjustment		<u>-</u>		<u>47,298</u>
Ending net assets	\$	<u><u>1,451,133</u></u>		<u><u>863,803</u></u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA
Electric Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 161,283	130,033
Payments to suppliers	(213,536)	(322,855)
Payments to employees	<u>(96,796)</u>	<u>(98,328)</u>
Net cash flows from operating activities	<u>(149,049)</u>	<u>(291,150)</u>
Cash flows from noncapital financing activities:		
Transfers in	275,610	275,610
Increase (decrease) in due to other funds	<u>(126,561)</u>	<u>171,663</u>
Net cash flows from noncapital financial activities	<u>149,049</u>	<u>447,273</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(515,175)	(156,123)
Capital contributions	<u>515,175</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>-</u>	<u>(156,123)</u>
Net increase in cash and investments	-	-
Beginning cash and investments	<u>-</u>	<u>-</u>
Ending cash and investments	\$ <u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	(203,455)	(312,642)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	69,011	60,120
(Increase) decrease in assets:		
Accounts receivable	3,135	(948)
Inventory	(14,364)	-
Increase (decrease) in liabilities:		
Accounts payable	3,472	(50,052)
Accrued leave	(6,362)	11,886
Accrued payroll and benefits	<u>(486)</u>	<u>486</u>
Net cash flows from operating activities	\$ <u><u>(149,049)</u></u>	<u><u>(291,150)</u></u>

See accompanying notes to basic financial statements.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Reporting Entity

The City of Akutan (City) was incorporated in 1979 as a second class city under the laws of the State of Alaska. The City operates under a council-mayor form of government and performs municipal duties allowed by Alaska statutes and as directed by its residents.

The financial statements included in this report are for the City of Akutan only. There are no other component units for which the City of Akutan is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting and Basis of Presentation, continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Fish taxes, charges for services, rentals, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds:

Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Permanent Fund Special Revenue Fund* manages funds for operations in the event there is a fisheries decline or other community disaster.

The *Geothermal Special Revenue Fund* accounts for activities related to the geothermal project.

Major proprietary fund –

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

The City has elected to present the following funds as major for consistency purposes:

The *Fuel/Gas Special Revenue Fund* accounts for the activities related to the sale of fuel.

The *Other Capital Projects Capital Project Fund* accounts for various capital improvements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting and Basis of Presentation, continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise fund and the various other funds and departments. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. In addition, general revenues include all taxes, investment income, and State entitlement revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the enterprise fund considers all equity in central treasury to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

Inventory

Inventories are valued at cost (first-in, first-out). Inventory consists of fuel held for resale and/or consumption by City departments. The cost is recorded as an expenditure or expense at the time individual inventory items are consumed.

Accrued Leave

The City allows employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Capital Assets, continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Infrastructure (dock, floats, etc.)	50 years
System infrastructure	20-50 years
Machinery and equipment	5-20 years

Deferred Grant Revenue

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as deferred revenue.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Fund Balances, continued

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

Pension Plans

All full time employees of the City participate in the Public Employees' Retirement System (PERS) administered by the State of Alaska.

Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered “earned”; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to construct assets. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund, Special Revenue Funds, and Capital Project Funds on the same modified accrual basis used to reflect actual revenues and expenditures. Appropriations for these funds lapse at year end to the extent that they have not been expended or encumbered. Supplemental appropriations that amend the total expenditures of any department or fund require Council approval. The budgeted financial statements represented in this report reflect the final budget authorization, including amendments made during the year.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. The Administrator must submit to the City Council by May 1 a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted by the City Council to provide an opportunity for public comment.
- c. By June 15, by City Council action, the budget is legally enacted through passage of an ordinance. If the City Council fails to pass an ordinance, the budget submitted by the Administrator becomes the adopted budget.

(2) **Cash and Investments**

Except for the Permanent Fund, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or in the case of "negative" cash, is included in "due to other funds." The City's cash is held in the form of demand accounts including checking, savings, and money market accounts held by commercial banks and money market funds in investment accounts as follows:

Accounts held in demand accounts	\$ 1,523,317
Money market funds	<u>51,961</u>
	\$ <u>1,575,278</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements although one of the City's current banking arrangements does not include collateralization and was uninsured to the extent of approximately \$817,025 at June 30, 2011.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Investment policy, continued

The City's investment policy authorizes investments in:

1. Treasury bonds, bills, notes or other general obligation evidences of indebtedness of the United States or an agency or instrumentality of the United States, or of the State of Alaska, or of other states of the United States, or of this City, of other cities of the State, and of boroughs of this State;
2. Fully insured or fully collateralized certificates of deposit, savings deposits, and other interest-bearing deposit accounts in member banks insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC);
3. Repurchase agreements where the general checking balance at the end of each business day is used to buy a security from the bank and held over night;
4. Investments through the Alaska Municipal League Investment Pool (AMLIP); and
5. Domestic, international, and real estate equities.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities at June 30, 2011 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>(in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>More Than 5</u>
U.S. government agencies	\$ 1,517,038	-	745,430	771,608
Foreign bonds	185,941	-	-	185,941
Corporate bonds	<u>1,824,386</u>	<u>509,751</u>	<u>791,101</u>	<u>523,534</u>
Total subject to interest rate risk	3,527,365	<u>509,751</u>	<u>1,536,531</u>	<u>1,481,083</u>
Equity mutual funds	2,014,841			
Pooled investments	<u>737,564</u>			
Total investments	\$ <u>6,279,770</u>			

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investments in corporate bonds of \$1,824,386 were rated as follows by Standard and Poor's: \$214,754 is rated A-, \$543,133 is rated A, \$106,913 is rated A+, \$156,007 is rated AA-, \$305,237 is rated AA+, \$297,246 is rated AAA and \$201,096 is not rated. The City's investments in government bonds of \$1,517,038 were rated as follows by Standard and Poor's: \$595,480 is rated AA+, and \$921,558 is rated AAA. The City's investments in foreign bonds were rated as follows by Standard and Poor's: \$110,585 is rated A- and \$75,356 is rated AAA.

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAAM for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements at June 30, 2011.

Demand and money market accounts	\$ 1,575,278
Investments	<u>6,279,770</u>
	<u>\$ 7,855,048</u>

(3) **Investment in Southwest Governments, LLC**

The City has purchased a 40 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the equity method. The City's balance in this investment at June 30, 2011, is \$603,715.

(4) **Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2011</u>
<u>Governmental activities</u>				
<i>Capital assets not being depreciated –</i>				
Land and improvements	\$ <u>793,886</u>	<u>-</u>	<u>-</u>	<u>793,886</u>

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<u>Governmental activities, continued</u>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements	\$ 3,664,645	59,671	-	3,724,316
Equipment	413,841	65,900	-	479,741
Water and sewer lines	625,000	-	-	625,000
Infrastructure	6,471,378	-	-	6,471,378
Total assets being depreciated	<u>11,174,864</u>	<u>125,571</u>	<u>-</u>	<u>11,300,435</u>
Less accumulated depreciation for:				
Buildings and improvements	936,635	91,178	-	1,027,813
Equipment	183,132	31,656	-	214,788
Water and sewer lines	322,500	12,500	-	335,000
Infrastructure	1,644,485	164,907	-	1,809,392
Total accumulated depreciation	<u>3,086,752</u>	<u>300,241</u>	<u>-</u>	<u>3,386,993</u>
Total capital assets being depreciated, net	<u>8,088,112</u>	<u>(174,670)</u>	<u>-</u>	<u>7,913,442</u>
Governmental activity capital assets, net	\$ <u>8,881,998</u>	<u>(174,670)</u>	<u>-</u>	<u>8,707,328</u>
<u>Business-type activities</u>				
<i>Capital assets not being depreciated -</i>				
Construction in progress	\$ <u>284,825</u>	<u>-</u>	<u>284,825</u>	<u>-</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	249,868	-	-	249,868
Equipment	417,222	-	-	417,222
Service lines	558,732	800,000	-	1,358,732
Infrastructure	739,683	-	-	739,683
Total assets being depreciated	<u>1,965,505</u>	<u>800,000</u>	<u>-</u>	<u>2,765,505</u>
Less accumulated depreciation for:				
Buildings and improvements	76,593	12,493	-	89,086
Equipment	114,323	27,136	-	141,459
Service lines	349,784	14,588	-	364,372
Infrastructure	251,497	14,794	-	266,291
Total accumulated depreciation	<u>792,197</u>	<u>69,011</u>	<u>-</u>	<u>861,208</u>
Total capital assets being depreciated, net	<u>1,173,308</u>	<u>730,989</u>	<u>-</u>	<u>1,904,297</u>
Business-type activity capital assets, net	\$ <u>1,458,133</u>	<u>730,989</u>	<u>-</u>	<u>1,904,297</u>

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 40,356
Public safety	13,927
Community services	81,752
Public works	45,706
Water and sewer	24,971
Apartment building	9,518
Warehouse	2,064
Dock and skiff moorage	79,336
Cable	<u>2,611</u>
Total governmental activities	\$ <u>300,241</u>

Business-type activities

Electric utility	\$ <u>69,011</u>
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(5) **Interfund Receivables, Payables and Transfers**

A schedule of interfund balances and transfers for the year ended June 30, 2011, follows:

Due from other funds:

Due to General Fund from:

Electric Enterprise Fund to cover operating costs and capital costs	\$ 464,585
Geothermal Special Revenue Fund to cover operating costs	509,563
Nonmajor funds to cover short-term advances for operating costs	<u>3,399</u>

Total due from other funds \$ 977,547

Transfers:

From General Fund to:

Electric Enterprise Fund to cover operating costs	\$ 275,610
Geothermal Special Revenue Fund to cover project costs	250,000
Fuel/Gas Special Revenue Fund to cover operating costs	27,885
Nonmajor funds to cover operating costs and capital costs	<u>184,740</u>

Total transfers to other funds \$ 738,235

(6) **Long-Term Debt**

In April 2008, the City issued a note payable for \$1,249,027 for the construction of the new City administration building. The note payable bears interest at 4.5% and is secured by a pledge of the City's general revenues, subject to annual appropriation.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

In January 2011, the City signed a loan agreement with Alaska Energy Authority to help with funding the geothermal project. The maximum amount of the loan is \$500,000.

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2011:

	Balance July 1, <u>2010</u>	<u>Additions</u>	<u>Retired</u>	Balance June 30, <u>2011</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
\$1,249,027 note payable, due in annual installments of \$255,391 to \$261,595 through 2013 plus interest at 4.5%	\$ 766,585	-	249,599	516,986	255,391
\$500,000 (maximum) note payable, payment terms are not yet established; interest at 4.89%	-	245,925	-	245,925	-
Accrued leave (net of payouts)	<u>63,331</u>	<u>47,322</u>	<u>63,331</u>	<u>47,322</u>	<u>47,322</u>
Total governmental activities	\$ <u>829,916</u>	<u>293,247</u>	<u>312,930</u>	<u>810,233</u>	<u>302,713</u>
<u>Business-type activities</u>					
Accrued leave (net of payouts)	\$ <u>15,225</u>	<u>8,863</u>	<u>15,225</u>	<u>8,863</u>	<u>8,863</u>

Annual debt service requirements to maturity for the note in repayment status are as follows:

Governmental activities

Year Ending June 30,	<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 255,391	20,398	275,789
2013	<u>261,595</u>	<u>7,506</u>	<u>269,101</u>
	\$ <u>516,986</u>	<u>27,904</u>	<u>544,890</u>

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

(7) **Fund Balances**

The City has implemented the provisions of GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions for the year ended June 30, 2011. Fund balances, reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	<u>General</u>	<u>Fuel / Gas Special Revenue</u>	<u>Permanent Fund Special Revenue</u>	<u>Geo- thermal Special Revenue</u>	<u>Other Capital Project</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Nonspendable:							
Inventory	\$ -	66,237	-	-	-	-	66,237
Prepaid items	-	2,384	-	-	-	-	2,384
Long-term receivables	82,564	-	-	-	-	-	82,564
Investment in Southwest Governments, LLC	<u>472,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>472,543</u>
Total nonspendable	<u>555,107</u>	<u>68,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,728</u>
Assigned:							
Fuel / Gas	-	99,638	-	-	-	-	99,638
Permanent Fund	-	-	5,844,167	-	-	-	5,844,167
Capital projects	-	-	-	-	806,651	-	806,651
Dock / skiff moorage	-	-	-	-	-	220,083	220,083
Cable	-	-	-	-	-	64,990	64,990
Town Creek hydro	-	-	-	-	-	100,000	100,000
Water and sewer projects	-	-	-	-	-	172,166	172,166
Boat harbor	-	-	-	-	-	10,000	10,000
Total assigned	<u>-</u>	<u>99,638</u>	<u>5,844,167</u>	<u>-</u>	<u>806,651</u>	<u>567,239</u>	<u>7,317,695</u>
Unassigned (deficit)	<u>1,644,773</u>	<u>-</u>	<u>-</u>	<u>(509,563)</u>	<u>-</u>	<u>-</u>	<u>1,135,210</u>
Total fund balances	\$ <u>2,199,880</u>	<u>168,259</u>	<u>5,844,167</u>	<u>(509,563)</u>	<u>806,651</u>	<u>567,239</u>	<u>9,076,633</u>

(8) **Federal Grants**

In FY 11, the City expended \$266,163 in federal grants. This amount is below the threshold for a federal single audit and thus a federal single audit was not performed. In addition in FY 11, the City took title to donated capital assets in the amount of \$800,000. These assets were funded by Denali Commission and the project was administered wholly by Alaska Energy Authority. Pursuant to a waiver issued by Denali Commission dated February 26, 2004, this non-cash contribution is not subject to the provisions of OMB Circular A-133.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

(9) **Defined Benefit Pension Plan**

The City participates in the Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The plan was established and is administered by the State of Alaska Department of Administration to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, Alaska 99811-0203

Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost-sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. Legislation provides for State contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions are recognized by each employer as an on-behalf payment.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (2.41% for pension and 4.34% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.68% for pension and 4.82% for healthcare).

The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due.

Under current legislation, the employer contribution rate is statutorily capped at 22%, however, the State of Alaska contributes any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, generally consistent with the actuarially determined rate.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy, continued

The City's contribution rates for 2011 were determined as part of the June 30, 2008 actuarial valuation and are as follows:

	Contractual <u>Rate</u>	ARM Board Adopted <u>Rate</u>	GASB 45* <u>Rate</u>
Pension	7.85%	9.98%	13.49%
Postemployment healthcare	<u>14.15%</u>	<u>17.98%</u>	<u>55.87%</u>
Total contribution rate	<u>22.00%</u>	<u>27.96%</u>	<u>69.36%</u>

*This rate uses the 4.5% OPEB discount rate and disregards all future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 8.25% (2.29 percentage points higher than the 5.96% required amount) of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$35,282 as revenue and expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2011	\$ 39,690	\$ 67,377	\$ 107,067	\$ 107,067	100%
2010	29,184	49,501	78,685	78,685	100%
2009	21,566	49,077	70,643	70,643	100%

(10) Defined Contribution Pension Plan

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan.

Employees are required to contribute 8.0% of their annual covered salary and the City is required to make the following contributions:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.56	0.48
Occupational death and disability benefits	<u>0.31</u>	<u>1.18</u>
	<u>8.87 %</u>	<u>9.66%</u>

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the average employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended June 30, 2011 were \$13,193 and \$11,258, respectively.

CITY OF AKUTAN, ALASKA

Notes to Basic Financial Statements, continued

(11) **Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies, transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA) which provides insurance coverage for property and contents damage including damage from flood or earthquake, torts, general liability, public officials liability, and workers' compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2011. The City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the policies have stayed relatively constant for the past few years.

(12) **Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and State governments. Any disallowed claims, including amounts already collected, would become a liability.

The City is involved in various claims and pending litigation as part of the normal course of its activities. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements.

SUPPLEMENTARY INFORMATION

CITY OF AKUTAN, ALASKA

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2011

<u>Assets</u>	<u>Special Revenue Funds</u>				<u>Capital Project Funds</u>		<u>Totals</u>
	<u>Dock/ Skiff Moorage</u>	<u>Cable</u>	<u>Town Creek Hydro Design</u>	<u>Loud Creek Hydro Feasibility</u>	<u>Water and Sewer</u>	<u>Boat Harbor</u>	
Cash and investments	\$ 213,643	64,026	96,009	-	172,177	10,000	555,855
Accounts receivable	6,798	1,265	-	-	-	-	8,063
Grants receivable	-	-	5,308	8,783	-	-	14,091
Total assets	\$ <u>220,441</u>	<u>65,291</u>	<u>101,317</u>	<u>8,783</u>	<u>172,177</u>	<u>10,000</u>	<u>578,009</u>
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	358	301	1,317	5,384	11	-	7,371
Due to other funds	-	-	-	3,399	-	-	3,399
Total liabilities	<u>358</u>	<u>301</u>	<u>1,317</u>	<u>8,783</u>	<u>11</u>	<u>-</u>	<u>10,770</u>
Fund balances - assigned:							
Dock/skiff moorage	220,083	-	-	-	-	-	220,083
Cable	-	64,990	-	-	-	-	64,990
Town Creek hydro design	-	-	100,000	-	-	-	100,000
Water and sewer capital projects	-	-	-	-	172,166	-	172,166
Boat harbor capital projects	-	-	-	-	-	10,000	10,000
Total fund balances	<u>220,083</u>	<u>64,990</u>	<u>100,000</u>	<u>-</u>	<u>172,166</u>	<u>10,000</u>	<u>567,239</u>
Total liabilities and fund balances	\$ <u>220,441</u>	<u>65,291</u>	<u>101,317</u>	<u>8,783</u>	<u>172,177</u>	<u>10,000</u>	<u>578,009</u>

CITY OF AKUTAN, ALASKA

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2011

	Special Revenue Funds				Capital Project Funds		Totals
	Dock/ Skiff Moorage	Cable	Town Creek Hydro Design	Loud Creek Hydro Feasibility	Water and Sewer	Boat Harbor	
Revenues:							
Charges for services	\$ 9,012	15,748	-	-	-	-	24,760
State of Alaska	-	-	38,596	68,630	-	-	107,226
ANTHC funds	-	-	-	-	25	-	25
Total revenues	<u>9,012</u>	<u>15,748</u>	<u>38,596</u>	<u>68,630</u>	<u>25</u>	<u>-</u>	<u>132,011</u>
Expenditures:							
Salaries and benefits	11,353	133	-	-	547	-	12,033
Contractual services	-	-	38,596	68,630	-	-	107,226
Parts and supplies	1,476	2,694	-	-	-	-	4,170
Insurance	7,934	-	-	-	-	-	7,934
Subscriptions	-	9,339	-	-	-	-	9,339
Utilities	261	-	-	-	-	-	261
Total expenditures	<u>21,024</u>	<u>12,166</u>	<u>38,596</u>	<u>68,630</u>	<u>547</u>	<u>-</u>	<u>140,963</u>
Excess of revenues over (under) expenditures	(12,012)	3,582	-	-	(522)	-	(8,952)
Other financing sources - transfers in	<u>59,740</u>	<u>20,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>184,740</u>
Net change in fund balances	47,728	23,582	100,000	-	(522)	5,000	175,788
Beginning fund balances	<u>172,355</u>	<u>41,408</u>	<u>-</u>	<u>-</u>	<u>172,688</u>	<u>5,000</u>	<u>391,451</u>
Ending fund balances	\$ <u>220,083</u>	<u>64,990</u>	<u>100,000</u>	<u>-</u>	<u>172,166</u>	<u>10,000</u>	<u>567,239</u>

CITY OF AKUTAN, ALASKA
 General Fund
 Balance Sheet
 June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>	<u>2010</u> (Restated)
<u>Assets</u>		
Cash and investments	\$ 560,007	1,025,398
Receivables:		
Akutan Traditional Council	82,564	82,564
MV Akutan Bay	-	15,000
Fish taxes	285,300	151,364
Other	4,050	23,595
Allowance for doubtful accounts	-	(15,000)
Investment in Southwest Governments, LLC	603,715	619,755
Due from other funds	<u>977,547</u>	<u>978,179</u>
 Total assets	 \$ <u><u>2,513,183</u></u>	 <u><u>2,880,855</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	176,631	79,827
Accrued payroll and benefits	-	11,904
Deferred revenue:		
Southwest Governments, LLC	131,172	147,212
Prepaid rent	<u>5,500</u>	<u>5,500</u>
Total liabilities	<u>313,303</u>	<u>244,443</u>
 Fund balance:		
Nonspendable:		
Noncurrent accounts receivable	82,564	82,564
Investment in Southwest Governments, LLC	472,543	619,755
Unassigned	<u>1,644,773</u>	<u>1,934,093</u>
Total fund balance	<u>2,199,880</u>	<u>2,636,412</u>
 Total liabilities and fund balance	 \$ <u><u>2,513,183</u></u>	 <u><u>2,880,855</u></u>

CITY OF AKUTAN, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	2011			2010
	Budget	Actual	Variance Positive (Negative)	(Restated) Actual
Revenues:				
Intergovernmental:				
State of Alaska:				
Fisheries business tax	\$ 1,100,000	827,408	(272,592)	1,088,369
Fisheries landing tax	21,500	154,758	133,258	307,561
State shared revenue	138,884	138,428	(456)	160,528
PERS relief	-	35,282	35,282	20,133
Total State of Alaska	<u>1,260,384</u>	<u>1,155,876</u>	<u>(104,508)</u>	<u>1,576,591</u>
Federal:				
Denali Commission grant	262,000	227,863	(34,137)	-
Energy grant	<u>38,300</u>	<u>38,300</u>	<u>-</u>	<u>-</u>
Total Federal	<u>300,300</u>	<u>266,163</u>	<u>(34,137)</u>	<u>-</u>
Local fish taxes	1,000,000	1,222,653	222,653	753,127
AEB grant	-	-	-	40,000
Investment income	45,000	44,492	(508)	4,613
Other revenues:				
Apartment rental	27,400	21,290	(6,110)	13,200
Warehouse rental	6,400	6,795	395	3,479
Vehicle rental	2,500	1,540	(960)	1,400
IHS clinic lease	17,000	20,567	3,567	17,773
Land leases	15,400	15,911	511	15,911
APICDA community support	120,253	120,253	-	143,227
Miscellaneous	<u>17,144</u>	<u>51,097</u>	<u>33,953</u>	<u>19,909</u>
Total other revenues	<u>206,097</u>	<u>237,453</u>	<u>31,356</u>	<u>214,899</u>
Total revenues	<u>2,811,781</u>	<u>2,926,637</u>	<u>114,856</u>	<u>2,589,230</u>
Expenditures:				
General government:				
Council:				
Salaries and benefits	129,280	202,614	(73,334)	162,192
Travel and per diem	11,000	2,268	8,732	13,176
Parts and supplies	2,300	-	2,300	77
Dues and fees	<u>1,200</u>	<u>-</u>	<u>1,200</u>	<u>1,676</u>
Total council	<u>143,780</u>	<u>204,882</u>	<u>(61,102)</u>	<u>177,121</u>

CITY OF AKUTAN, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2011		Variance	2010
	Budget	Actual	Positive (Negative)	(Restated) Actual
Expenditures, continued:				
General government, continued:				
Planning and zoning:				
Salaries and benefits	\$ 14,375	20,113	(5,738)	17,206
Travel and per diem	5,000	1,250	3,750	-
Parts and supplies	568	2,761	(2,193)	-
Dues and fees	-	1,346	(1,346)	-
Contractual services	236,000	268,062	(32,062)	32,071
Total planning and zoning	255,943	293,532	(37,589)	49,277
Administration:				
Salaries and benefits	370,630	438,911	(68,281)	368,789
Contractual services	98,000	124,250	(26,250)	321,857
Outside services	10,000	17,816	(7,816)	-
Travel and per diem	36,000	75,061	(39,061)	31,477
Parts and supplies	25,000	24,334	666	43,158
Rent	24,000	40,432	(16,432)	26,649
Leasehold improvements	-	59,671	(59,671)	-
Insurance	32,300	27,920	4,380	32,289
Telephone	12,000	21,304	(9,304)	8,912
Electricity	2,000	4,694	(2,694)	2,317
Dues and fees	10,000	32,085	(22,085)	14,763
Postage	1,265	1,492	(227)	742
Equipment	6,000	-	6,000	-
Bank fees	2,000	3,629	(1,629)	2,207
Contributions	400	-	400	350
Fuel subsidy	-	34,563	(34,563)	-
Lobbying	40,000	40,270	(270)	88,616
Fuel	-	2,750	(2,750)	-
Miscellaneous	1,000	23,649	(22,649)	13,481
Total administration	670,595	972,831	(302,236)	955,607
Total general government	1,070,318	1,471,245	(400,927)	1,182,005
Public safety - police and fire:				
Salaries and benefits	54,126	62,234	(8,108)	54,595
Parts and supplies	1,000	1,210	(210)	3,920
Insurance	3,400	2,918	482	3,405
Telephone	2,500	1,051	1,449	2,617
Electricity	1,000	2,466	(1,466)	1,334
Fuel	1,500	632	868	1,438
Miscellaneous	100	50	50	-
Total public safety - police and fire	63,626	70,561	(6,935)	67,309

CITY OF AKUTAN, ALASKA

General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual, continued

	<u>2011</u>		<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative) <u>Actual</u>
Expenditures, continued:			
Community services:			
Recreation:			
Salaries and benefits	\$ 550	2,256	(1,706)
Postage	-	83	(83)
Parts and supplies	9,000	6,672	2,328
Travel and per diem	-	282	(282)
Insurance	1,200	1,030	170
Telephone	-	141	(141)
Fuel	200	-	200
Total recreation	<u>10,950</u>	<u>10,464</u>	<u>486</u>
Clinic and health:			
Contractual services	16,150	50,903	(34,753)
Parts and supplies	-	917	(917)
Improvements	850	-	850
Fuel	-	1,620	(1,620)
Miscellaneous	-	479	(479)
Total clinic and health	<u>17,000</u>	<u>53,919</u>	<u>(36,919)</u>
Library:			
Salaries and benefits	28,990	36,813	(7,823)
Parts and supplies	6,000	363	5,637
Books and subscriptions	200	212	(12)
Postage	-	23	(23)
Insurance	2,500	2,145	355
Telephone	1,500	427	1,073
Electricity	400	766	(366)
Fuel	4,400	7,823	(3,423)
Travel and per diem	-	-	-
Dues and fees	120	50	70
Miscellaneous	400	2,066	(1,666)
Total library	<u>44,510</u>	<u>50,688</u>	<u>(6,178)</u>
Total community services	<u>72,460</u>	<u>115,071</u>	<u>(42,611)</u>

CITY OF AKUTAN, ALASKA

General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual, continued

	2011		Variance	2010
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)	(Restated) <u>Actual</u>
Expenditures, continued:				
Public works:				
Salaries and benefits	\$ 61,120	115,800	(54,680)	65,214
Contractual services	196,500	188,344	8,156	-
Building materials	20,000	28,513	(8,513)	1,443
Parts and supplies	10,000	19,326	(9,326)	23,902
Insurance	7,500	6,436	1,064	7,447
Telephone	-	72	(72)	-
Postage	-	135	(135)	-
Electricity	1,600	4,691	(3,091)	2,262
Fuel	1,000	-	1,000	-
Equipment	-	60,900	(60,900)	-
Dues and fees	2,800	1,951	849	2,819
Church repairs	19,260	-	19,260	-
Miscellaneous	500	7,174	(6,674)	1,237
Total public works	<u>320,280</u>	<u>433,342</u>	<u>(113,062)</u>	<u>104,324</u>
Water and sewer:				
Salaries and benefits	59,540	82,858	(23,318)	60,779
Contractual services	6,000	9,461	(3,461)	5,107
Travel and per diem	7,000	3,358	3,642	6,691
Parts and supplies	15,000	11,054	3,946	12,253
Insurance	2,850	2,446	404	2,500
Telephone	400	318	82	425
Electricity	2,000	2,436	(436)	2,466
Fuel	3,000	2,939	61	3,427
Dues and fees	500	514	(14)	605
Miscellaneous	-	233	(233)	-
Total water and sewer	<u>96,290</u>	<u>115,617</u>	<u>(19,327)</u>	<u>94,253</u>
Garbage and recycling:				
Salaries and benefits	7,380	11,366	(3,986)	7,092
Parts and supplies	13,000	15,751	(2,751)	6,304
Insurance	2,658	2,281	377	2,658
Fuel	-	316	(316)	-
Total garbage and recycling	<u>23,038</u>	<u>29,714</u>	<u>(6,676)</u>	<u>16,054</u>
Apartment building:				
Salaries and benefits	24,165	18,626	5,539	23,654
Contractual services	-	6,798	(6,798)	-
Parts and supplies	6,000	3,435	2,565	762
Insurance	4,000	3,433	567	3,914
Fuel	1,000	4,093	(3,093)	1,412
Total apartment building	<u>35,165</u>	<u>36,385</u>	<u>(1,220)</u>	<u>29,742</u>

CITY OF AKUTAN, ALASKA

General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual, continued

	<u>2011</u>		<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative) <u>Actual</u>
Expenditures, continued:			
Airport:			
Lobbying	\$ 60,000	65,781	(5,781)
Other contractual	5,000	6,000	(1,000)
Total airport	<u>65,000</u>	<u>71,781</u>	<u>(6,781)</u>
Debt service:			
Principal	250,000	249,599	401
Interest	56,250	31,619	24,631
Total debt service	<u>306,250</u>	<u>281,218</u>	<u>25,032</u>
Total expenditures	<u>2,052,427</u>	<u>2,624,934</u>	<u>(572,507)</u>
Excess of revenues over expenditures	759,354	301,703	(457,651)
Other financing uses - transfers to:			
Special revenue funds:			
Dock/Skiff Moorage	(59,740)	(59,740)	-
Cable	(20,000)	(20,000)	-
Fuel/Gas	(27,885)	(27,885)	-
Permanent	-	-	-
Town Creek Hydro Design	(100,000)	(100,000)	-
Capital project funds:			
Geothermal	(250,000)	(250,000)	-
Boat Harbor	(5,000)	(5,000)	-
Electric Enterprise Fund	<u>(275,610)</u>	<u>(275,610)</u>	<u>-</u>
Total other financing uses	<u>(738,235)</u>	<u>(738,235)</u>	<u>-</u>
Net change in fund balance	\$ <u>21,119</u>	(436,532)	<u>(457,651)</u>
Beginning fund balance (restated)		2,636,412	2,489,750
Prior period adjustment		-	<u>143,237</u>
Ending fund balance	\$ <u>2,199,880</u>		<u>2,636,412</u>

CITY OF AKUTAN, ALASKA
 Dock/Skiff Moorage Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues:				
Skiff moorage	\$ 3,000	8,722	5,722	6,624
Dock moorage charges	-	290	290	-
Total revenues	<u>3,000</u>	<u>9,012</u>	<u>6,012</u>	<u>6,624</u>
Expenditures:				
Skiff moorage:				
Salaries and benefits	1,655	199	1,456	-
Insurance	245	210	35	128
Total skiff moorage	<u>1,900</u>	<u>409</u>	<u>1,491</u>	<u>128</u>
Dock and warehouse:				
Salaries and benefits	24,085	11,154	12,931	-
Contractual services	5,000	-	5,000	-
Parts and supplies	1,500	1,476	24	9,434
Insurance	9,000	7,724	1,276	8,723
Utilities	1,000	261	739	1,040
Total dock and warehouse	<u>40,585</u>	<u>20,615</u>	<u>19,970</u>	<u>19,197</u>
Total expenditures	<u>42,485</u>	<u>21,024</u>	<u>21,461</u>	<u>19,325</u>
Excess of revenues over (under) expenditures	(39,485)	(12,012)	27,473	(12,701)
Other financing sources - transfers in	<u>59,740</u>	<u>59,740</u>	-	<u>59,740</u>
Net change in fund balance	\$ <u>20,255</u>	47,728	<u>27,473</u>	47,039
Beginning fund balance		172,355		104,536
Priod period adjustment		-		<u>20,780</u>
Ending fund balance	\$ <u>220,083</u>			<u>172,355</u>

CITY OF AKUTAN, ALASKA
Cable Special Revenue Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>		<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative) <u>Actual</u>
Revenues - charges for services	\$ <u>18,000</u>	<u>15,748</u>	<u>(2,252)</u> <u>11,836</u>
Expenditures:			
Salaries and benefits	-	133	(133) -
Parts and supplies	5,000	2,694	2,306 4,824
Subscriptions	<u>10,000</u>	<u>9,339</u>	<u>661</u> <u>9,896</u>
Total expenditures	<u>15,000</u>	<u>12,166</u>	<u>2,834</u> <u>14,720</u>
Excess of revenues over (under) expenditures	3,000	3,582	582 (2,884)
Other financing sources - transfers in	<u>20,000</u>	<u>20,000</u>	<u>-</u> <u>20,000</u>
Net change in fund balance	\$ <u><u>23,000</u></u>	<u>23,582</u>	<u><u>582</u></u> 17,116
Beginning fund balance		<u>41,408</u>	<u>24,292</u>
Ending fund balance	\$ <u><u>64,990</u></u>		<u><u>41,408</u></u>

CITY OF AKUTAN, ALASKA
Town Creek Hydro Design Special Revenue Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011
(With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues - State of Alaska	\$ 1,503,500	38,596	(1,464,904)	57,116
Expenditures - contractual services	<u>1,603,500</u>	<u>38,596</u>	<u>1,564,904</u>	<u>57,116</u>
Excess of revenues over (under) expenditures	(100,000)	-	100,000	-
Other financing sources - transfers in	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Net change in fund balance	\$ <u>-</u>	100,000	<u>-</u>	-
Beginning fund balance		<u>-</u>		<u>-</u>
Ending fund balance	\$	<u>100,000</u>		<u>-</u>

CITY OF AKUTAN, ALASKA
 Loud Creek Hydro Feasibility Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues - State of Alaska	\$ 155,772	68,630	(87,142)	72,903
Expenditures - contractual services	<u>155,772</u>	<u>68,630</u>	<u>87,142</u>	<u>72,903</u>
Net change in fund balance	\$ <u>-</u>	-	<u>-</u>	-
Beginning fund balance		<u>-</u>		<u>-</u>
Ending fund balance	\$ <u>-</u>	<u>-</u>		<u>-</u>

CITY OF AKUTAN, ALASKA
 Water and Sewer Capital Project Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance- Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues - other revenues	\$ -	25	25	142
Expenditures - capital outlay	<u>-</u>	<u>547</u>	<u>(547)</u>	<u>9,044</u>
Net change in fund balance	\$ <u>-</u>	(522)	<u>(522)</u>	(8,902)
Beginning fund balance		<u>172,688</u>		<u>181,590</u>
Ending fund balance		\$ <u>172,166</u>		<u>172,688</u>

CITY OF AKUTAN, ALASKA
 Other Capital Projects Capital Project Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues - investment income	\$ 10,000	107	(9,893)	1,726
Expenditures - capital outlay	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>628,259</u>
Net change in fund balance	\$ <u>-</u>	107	<u>107</u>	(626,533)
Beginning fund balance		<u>806,544</u>		<u>1,433,077</u>
Ending fund balance		\$ <u>806,651</u>		<u>806,544</u>

CITY OF AKUTAN, ALASKA
 Boat Harbor Construction Capital Project Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2011
 (With Comparative Amounts for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Other financing sources - transfers in	\$ <u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Net change in fund balance	\$ <u><u>5,000</u></u>	<u>5,000</u>	<u><u>-</u></u>	<u>5,000</u>
Beginning fund balance		<u>5,000</u>		<u>-</u>
Ending fund balance	\$	<u><u>10,000</u></u>		<u><u>5,000</u></u>

CITY OF AKUTAN, ALASKA
Schedule of State Financial Assistance
Year Ended June 30, 2011

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>July 1, 2010 Receivable (Deferred)</u>	<u>State Share of Expend- itures</u>	<u>State Receipts</u>	<u>June 30, 2011 Receivable (Deferred)</u>
Department of Commerce, Community and Economic Development						
*Revenue Sharing	2011	\$ 138,428	-	138,428	138,428	-
*Fisheries Business Tax	2011	141,412	-	141,412	141,412	-
*Fisheries Landing Tax	2011	132,762	-	132,762	132,762	-
Total Department of Commerce, Community and Economic Development			-	412,602	412,602	-
Alaska Energy Authority						
*Hot Springs Bay Valley Geothermal Reconnaissance	2195475	2,595,000	344,223	1,604,312	1,948,535	-
*Akutan Geothermal Development Project	7030023	173,792	-	173,792	173,792	-
Town Creek Hydro System - Design for Repairs/Upgrade	2195473	162,000	11,038	38,596	44,326	5,308
Loud Creek Hydro Feasibility Analysis/Conceptual Design	2195472	237,772	5,870	68,630	65,717	8,783
Total Alaska Energy Authority			361,131	1,885,330	2,232,370	14,091
Department of Revenue						
*Fisheries Business Tax	2010	685,996	-	685,996	685,996	-
Fisheries Landing Tax	2010	21,996	-	21,996	21,996	-
Total Department of Revenue			-	707,992	707,992	-
Department of Administration						
PERS Relief	2011	35,282	-	35,282	35,282	-
Total State Financial Assistance		\$	361,131	3,041,206	3,388,246	14,091

*Major Program

Note 1: Basis of Presentation

The accompanying schedule of state financial assistance includes the State of Alaska grant activity for City of Akutan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

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SINGLE AUDIT REPORTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Mayor and City Council
City of Akutan, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Akutan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Akutan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Akutan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Akutan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-01, 11-02, 11-03, 11-04, and 11-05 to be material weaknesses.

Honorable Mayor and City Council
City of Akutan, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Akutan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Akutan's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit City of Akutan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City of Akutan's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
December 6, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and City Council
City of Akutan, Alaska

Compliance

We have audited the City of Akutan's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of its major state programs for the year ended June 30, 2011. City of Akutan's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City of Akutan's management. Our responsibility is to express an opinion on City of Akutan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of Akutan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Akutan's compliance with those requirements.

In our opinion, City of Akutan complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major state programs for the year ended June 30, 2011.

Honorable Mayor and City Council
City of Akutan, Alaska

Internal Control over Compliance

Management of City of Akutan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered City of Akutan's internal control over compliance with requirements that could have a direct and material effect on a major state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Akutan's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of City of Akutan's management, Honorable Mayor and City Council, others within the entity, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
December 6, 2011

CITY OF AKUTAN, ALASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported
- Noncompliance material to financial statements noted? yes X no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs?

Unqualified

Dollar threshold used to distinguish between a state major program

\$75,000

II. Financial Statement Findings

Finding 11-01

Check Clearing Account Reconciliation – Material Weakness in Internal Control over Financial Reporting

Criteria: Government Auditing Standards state that: "management of the audited entity is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported".

Condition: During the audit fieldwork, we noted that the check clearing account had not been reconciled during the year, and the balance as of June 30, 2011 was not accurate.

Context: While obtaining an understanding of internal controls over cash receipts, it was noted that essentially all cash receipts received at the City office were being posted to a check clearing account that was not reconciled during the year. As a result, there was a significant balance of unidentified deposits in the check clearing account at year-end. In addition, during the test of controls over cash receipts, we noted that one out of sixteen cash receipts was not coded to the correct revenue account.

CITY OF AKUTAN, ALASKA

Schedule of Findings and Questioned Costs, continued

Financial Statement Findings, continued

Finding 11-01 Check Clearing Account Reconciliation – Material Weakness in Internal Control over Financial Reporting, continued

Effect: Reconciliation of the check clearing account on a timely basis allows for the detection of duplicate or misposted cash receipts and to ensure the accuracy of the reported revenues, as well as the balance in the checking account.

Cause: Procedures are not in place to ensure that the check clearing account reconciliations are performed and reviewed throughout the year.

Recommendation: We recommend that procedures be implemented to ensure that the check clearing account activity is reconciled on a monthly basis. We also recommend that the reconciliations and copies of the monthly bank statements be provided to the Finance Manager and/or Contract Accountant for their review.

Views of responsible officials and planned corrective actions: See the corrective action plan.

Finding 11-02 Inventory Reconciliation - Material Weakness in Internal Control over Financial Reporting

Criteria: As part of internal control over inventory management, inventory counts should be performed and reconciled to the general ledger on a timely basis.

Condition: Fuel inventory counts were not reconciled to the general ledger on a timely basis.

Context: It was noted during our audit that fuel inventory counts were performed monthly, however fuels inventory logs were not reconciled to the general ledger.

Effect: The process of reconciling the inventory counts to the inventory coded in the general ledger is essential to adequate control over inventory management. Regular and timely inventory reconciliations will provide accurate balances for fuel inventory as well as allow for better tracking of fuel usage.

Cause: Procedures are not in placed to ensure that fuel inventory reconciliations are performed and reviewed throughout the year.

Recommendation: The City should establish policies and procedures to include monthly inventory reconciliation of the amount recorded in the general ledger to the physical inventory counts.

Views of responsible officials and planned corrective actions: See the corrective action plan.

CITY OF AKUTAN, ALASKA

Schedule of Findings and Questioned Costs, continued

Financial Statement Findings, continued

Finding 11-03 Internal Controls Over Payroll Transactions and Federal Tax Reporting – Material Weakness in Internal Control Over Financial Reporting

- Criteria: Adequate internal controls over the authorization, recording and review of payroll transactions are required for accurate financial reporting and compliance with federal and state laws and regulations regarding employment.
- Condition: During the course of reviewing and testing internal controls over payroll transactions, we noted that there was inconsistent supervisory review of payroll transactions and insufficient documentation of authorized pay rates. We also noted that some federal payroll tax returns were not submitted timely.
- Context: 24 out of the 40 payroll transactions that we selected for testing did not have documentation of proper approval for either the rates of pay or the hours worked during the period. Two of four IRS Form 941 submissions were filed late, and there was no evidence that their preparation had been reviewed by supervisory personnel.
- Effect: Internal controls over payroll transactions are not sufficient to reduce to a low level the risk of misstatement or noncompliance with laws and regulations material to the financial statements.
- Cause: Procedures are not in place to ensure that payroll transactions, rates of pay, and related payroll reports are reviewed by a supervising person.
- Recommendation: We recommend that either the Mayor or City Administrator review all timesheets of hourly employees and indicate the performance of the review by signing the timesheet. We also recommend that the City develop a personnel action form or other documentation of the authorized pay rate of each employee, and that the employee and supervisor sign that document. This form should be kept in the personnel file and updated each time the rate of pay or job duties for the employee changes. We recommend that the City implement formal procedures to ensure that payroll tax deposits are made timely and that IRS form 941 submissions are prepared and completed timely and have a management level individual review the preparation and submittal of tax returns.

Views of responsible officials and planned corrective actions: See the corrective action plan.

CITY OF AKUTAN, ALASKA

Schedule of Findings and Questioned Costs, continued

Financial Statement Findings, continued

Finding 11-04 Segregation of Duties - Material Weakness in Internal Control Over Financial Reporting

Criteria: Internal controls over the cash and cash receipts are essential to financial reporting. Segregation of duties and review of the cash disbursements and cash receipts are essential controls to prevent misstatement of financial information and help to achieve objectives of internal controls.

Condition: During the course of the audit it was noted that the Office Assistant was responsible for entering cash receipts into the general ledger, cutting checks and performing bank reconciliations. She also has check signing authority. There was no evidence that bank reconciliations were reviewed by a second person after completion.

Context: The condition was noted during the auditor's procedures to obtain understanding of internal controls over cash and cash receipts.

Effect: Allowing an individual to post entries in the general ledger, sign checks, process cash receipts, and perform the bank reconciliations without compensating controls provides the opportunity for fraud, misappropriation of assets, or inaccurate postings in the general ledger. It should be noted that we did not see any evidence of fraud or misappropriation of assets.

Cause: There is no segregation of duties for those involved in posting entries in the general ledger, processing cash receipts, reconciling bank accounts, and signing checks.

Recommendation: Bank statements and bank reconciliations should be prepared and/or reviewed by a responsible official other than the preparer.

Views of responsible officials and planned corrective actions: See the corrective action plan.

Finding 11-05 Internal Controls Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting

Criteria: Internal controls over the posting of journal entries are essential to accurate financial reporting and can reduce the risk of misstatement of financial information.

Condition: During the course of performing our audit procedures, we noted that journal entries were not always being reviewed by a second individual after posting.

CITY OF AKUTAN, ALASKA

Schedule of Findings and Questioned Costs, continued

Financial Statement Findings, continued

Finding 11-05 Internal Controls Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting, continued

Context: While obtaining an understanding of internal controls over journal entries it was noted that the City does not have formalized segregation of duties, or a documented review and approval process with respect to journal entries. We were unable to test controls over journal entries because we found them to be inconsistently applied. Documentation to support the journal entries was also lacking in many instances.

Effect: Insufficient or inadequate internal controls over journal entries may fail to prevent or detect a misstatement of the financial statements.

Cause: The City does not have procedures in place to provide a consistent review of journal entries posted to the accounting system.

Recommendation: We recommend that at the end of each month, all journal entries posted that month be printed out from the system and reviewed and approved by a management individual or Contract Accountant. The journal entries, along with the approval (signature or initials) should be filed and retained. Supporting documentation for each journal entry should also be attached to provide the reason and/or explanation for the journal entry.

Views of responsible officials and planned corrective actions: See the corrective action plan.

II. State Award Findings and Questioned Costs

None noted.

CITY OF AKUTAN, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2011

Financial Statement Findings

Finding 10-01 Internal Controls Over Bank Reconciliations – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to ensure that bank reconciliations are performed for all accounts and reviewed by supervisory personnel.

Status: During 2011 the City has employed a contract accountant to perform bank reconciliations and other accounting services as required. We consider this finding resolved.

Finding 10-02 Internal Controls Over General Ledger Account Reconciliation – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to ensure that regular account reconciliations are performed and reviewed throughout the year.

Status: During 2011 regular reconciliations and adjustments were reviewed by the Finance Manager. The City has employed a contract accountant to perform general ledger accounts reconciliations. We consider this finding resolved.

Finding 10-03 Prior Period Adjustment – Reporting Grant Revenues – Material Weakness in Internal Control Over Financial Reporting

Condition: Timely reconciliations of grant reports to the general ledger were not performed.

Status: During 2011 the Finance Manager was preparing timely grant reports as required by the appropriate agencies and reflected in the reports provided to these agencies. We consider this finding resolved.

Finding 10-04 Prior Period Adjustment - Internal Controls Over Capital Asset Schedule – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to ensure that the capital asset schedule is updated regularly and reconciled to the general ledger.

Status: During 2011 the City has employed a contract accountant to assist to update an accurate capital asset schedule. We consider this finding resolved.

CITY OF AKUTAN, ALASKA

Summary Schedule of Prior Audit Findings, continued

Financial Statement Findings, continued

Finding 10-05 Internal Controls Over Payroll Transactions and Federal Tax Reporting – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to ensure that payroll transactions, rates of pay, and related payroll reports are reviewed by a supervising person.

Status: This finding has been repeated as finding 11-03 in the current fiscal year.

Finding 10-06 Internal Controls Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to provide a consistent review of journal entries posted to the accounting system.

Status: This finding has been repeated as finding 11-05 in the current fiscal year.

State Award Findings and Question Costs

Finding 10-01 Internal Controls Over Bank Reconciliations – Material Weakness in Internal Control Over Financial Reporting

Condition: The City does not have procedures in place to ensure that bank reconciliations are performed for all accounts and reviewed by supervisory personnel.

Status: During 2011 the City has employed a contract accountant to perform bank reconciliations and other accounting services as required. We consider this finding resolved.

CITY OF AKUTAN, ALASKA

Corrective Action Plan

Year Ended June 30, 2011

Name of Contact Person: Elvi Gray-Jackson, Finance Manager
Phone: (907) 274-7555
Email: akutanfinance@gci.net

Note: All of the corrective action plans below are currently being implemented.

Financial Statement Findings

Finding 11-01 Check Clearing Account Reconciliation – Material Weakness in Internal Control over Financial Reporting

The Check Clearing Account is managed through Quick Books with deposits generated through the KeyBank Account also known as the City Cash Account. The Finance Manager is currently working with staff to ensure that the reconciliation for the City Cash Account is performed on a monthly basis.

Planned corrective action:

The Finance Manager will continue to work with the staff in the Akutan Office to ensure that the reconciliation of the City Cash Account in conjunction with Quick Books is reconciled on a monthly basis. The Finance Manager is also developing a Financial Policy and Procedure Manual which will outline the financial expectations of staff.

Finding 11-02 Inventory Reconciliation – Material Weakness in Internal Control Over Financial Reporting

Planned corrective action:

The Finance Manager is developing a Finance Policy and Procedures Manual which will include inventory management/counts procedures and expectations. Instructions for performing the Fuel Inventory counts and logs will be included in this document.

Finding 11-03 Internal Controls Over Payroll Transactions and Federal Tax Reporting - Material Weakness in Internal Control Over Financial Reporting

Currently, the Mayor reviews and signs the timesheets of Akutan personnel prior to check disbursement by the City Clerk. If the Mayor is not in the Office, Payroll is processed in order to provide paychecks in a timely manner. The City Administrator has already in place a Personnel Action Form that is to be used for new pay rates, new employees, and any other personnel changes that occur.

The City also experienced the issue of hiring a new City Clerk who was trained by the prior Clerk and is working diligently to ensure that all required payroll taxes including the IRS Form 941 are paid and generated on time.

CITY OF AKUTAN, ALASKA

Corrective Action Plan, continued

Financial Statement Findings, continued

Planned corrective action:

The Mayor will continue to review and sign all timesheets of hourly employees. In his absence, the City Administrator will be required to review and sign hourly employee timesheets. The Mayor and City Administrator will ensure that the Personnel Action Form in place is used by City Staff when any and all personnel changes occur. The current City Clerk is continuing to work diligently to ensure that all payroll taxes and IRS Form 941 are paid and generated in a timely manner. She is currently providing the Finance Manager with copies of checks and deposits made for these payments. Although the Finance Manager does review the IRS Form 941 prior to submittal, a signature to note that review will be provided within the file.

Finding 11-04 Segregation of Duties – Material Weakness in Internal Control over Financial Reporting

As mentioned above, the City has experienced hiring another City Clerk who was promoted from within. A new employee was hired to replace the personnel who was promoted. Although the City Clerk is grasping her responsibilities quickly, the new hire is being trained by the Clerk which is timely and has prevented the segregation of duties from occurring.

Planned corrective action:

The Finance Manager is currently working closely with the City Clerk distantly. They are currently outlining responsibilities of the two staff in Akutan to ensure that Bank Statements are reviewed by the Finance Manager and/or the City Administrator and reconciliations are prepared and/or reviewed by the Finance Manager and/or the City Administrator as proposed in the 2010 Audit Findings corrective action.

Finding 11-05 Internal Controls Over Journal Entries – Material Weakness in Internal Control Over Financial Reporting

During the 2011 Budget Year we have improved internal controls over journal entries made. As mentioned above, again this year the City Clerk was replaced and is currently working with the Finance Manager to ensure that monthly journal entries are printed out and reviewed and approved by the Finance Manager and/or the City Administrator.

Planned corrective action:

At the end of each month, journal entries posted will be printed from the system and reviewed and approved by the Finance Manager and/or the City Administrator. Approved journal entries will be filed and kept according to the City's Records Retention Schedule. We have electronic reminders in place to ensure that this occurs.



An Independently Owned Member
McGLADREY ALLIANCE



December 6, 2011

Bill Rolfzen
Department of Community and
Economic Development
P.O. Box 110809
Juneau, AK 99811

Dear Bill:

Enclosed is one copy of June 30, 2011 Basic Financial Statements and Supplementary Information for the year ended for the City of Akutan, Alaska.

Please feel free to contact us if you have any questions or need anything further.

Sincerely,

A handwritten signature in black ink, appearing to read 'Antigany Dehner', with a long horizontal line extending to the right.

Antigany Dehner for Katrina Bergstrom
MIKUNDA, COTTRELL & CO.

cc: John Bost
file

Enc.

